



NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS

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June 29, 1994

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, NW
Washington, D.C. 20554

RE: CC Docket No. 94-1

Dear Mr. Caton:

Enclosed please find the original and nine (9) copies of Comments of the National Association of Development Organizations.

Sincerely,

A handwritten signature in cursive script that reads "Aliceann Wohlbruck".

Aliceann Wohlbruck
Executive Director

cc: Tariff Division, Common Carrier Bureau, FCC (two copies)
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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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OFFICE OF THE SECRETARY

In the Matter of)

Price Cap Performance Review)
for Local Exchange Carriers)

CC Docket 94-1

**REPLY COMMENTS OF
THE NATIONAL ASSOCIATION OF DEVELOPMENT ORGANIZATIONS**

The following reply comments are submitted by the National Association of Development Organizations¹ (NADO) in the FCC proceedings related to the fourth year review of the Local Exchange Carrier (LEC) price cap plan. After reviewing the progress of the current price cap plan, consideration of the Baseline Issues for Comment contained in the Notice of Proposed Rulemaking, and the initial comments provided by several organizations we suggest that the FCC consider several changes in the current plan which we believe will result in increased benefits to rural America.

¹ The National Association of Development Organizations is a nonprofit organization promoting regional economic development in America's small cities and rural areas. NADO member organizations, known as economic development districts, councils of governments, and regional planning commissions, administer economic and community development programs designed to create jobs and improve the quality of life in rural America.

The Importance of Advanced Telecommunications For Rural America

NADO endorses the Clinton Administration's goal of creating a National Information Infrastructure (NII) with connections throughout the country by the Year 2000. The association recognizes the critical role that telecommunications and the information infrastructure can play in enhancing the lives and economic opportunities of rural consumers and creating new economic development opportunities for rural America.

Earlier this year the NADO Research Foundation produced a white paper titled Telecommunications and Its Impact on Rural America. In that report we stated:

"Telecommunications has significant potential to contribute to economic development in rural America. Applications of information technologies in rural businesses, schools, health care institutions, and government agencies can help make those organizations more efficient and effective, help them to overcome the "rural penalty" that results from geographic isolation, and help rural communities to diversify their economies."

The development of a National Information Infrastructure can provide new opportunities for rural America and allow the resources of the people and institutions located in America's small towns and cities to fully contribute to building the country's economic future.

Growing out of our white paper, a unifying statement of principles was created concerning the future of rural telecommunications. These principles are:

- The telecommunications needs of rural consumers must be met and served equally with those of urban areas. It is unacceptable to adopt policies that would assign a lower priority or longer time frame to achieving access to advanced services at affordable rates in rural America.

- Technological changes, as well as market and policy changes, make clear that competition in the telecommunications industry is inevitable. National policies encouraging greater competition must include a tangible commitment to policies and incentives that bring competition equally to rural areas in comparison with urban areas, or that provide adequate substitutes where it is not possible.
- National policies encouraging competition must include eliminating legal and regulatory barriers to entry into long distance telephone, local telephone and cable television businesses by any entity willing to provide service to rural consumers. Otherwise, unequal competition will likely result in unreasonably high phone rates and reduced capital investments in rural telecommunications infrastructure. Similarly, in a competitive environment all telecommunications providers must be subject to the same regulatory treatment. All telecommunications service providers should contribute equitably to public purpose funds and programs related to that service including requirements for funding universal telephone service. In addition, telephone companies providing video services should, like the cable industry, be subject to the same local government franchise requirements and fees as cable operators.
- Lowering long distance rates through such mechanisms as increased competition in long distance services and extended calling areas is particularly important, since rural consumers typically rely more heavily on long distance services.
- Universal service programs and policies for local telephone service in high cost areas must be continued in order to ensure affordable rates and infrastructure investment until such time that effective competition can achieve a similar result. In the meantime, mechanisms to fund universal service must ensure that all providers of telecommunications services contribute as a precondition to their market entry.
- A uniform definition of basic telephone service for all consumers in rural, frontier and urban areas should be created and allowed to evolve over time to take advantage of new technologies.
- Infrastructure sharing between larger and smaller local telephone companies should be encouraged in order to allow rural customers access to advanced telecommunications services at rates comparable to other areas.

This statement has been agreed to by several national organizations representing various rural consumer constituencies including the American College of Nurse Mid-Wives, American Telemedicine Association, National Association of Development Organizations, National Association of Towns and Townships, National Rural Health Association, National Rural Housing Coalition, and the United Homeowners Association.

Using Telecommunications Regulation to Benefit Rural America

Throughout the history of this country public policies have been developed to ensure that rural consumers are adequately served. In telecommunications, for example, rural America has long benefitted from policies ensuring universal service. One of the conclusions of our white paper was that, in the future, special consideration should be given to alternative forms of telecommunications regulation in order to provide incentives for local telephone companies to become more efficient, increase investments in the rural telecommunications infrastructure, and help foster economic development.

Our membership feels that lasting economic development can best occur through the efforts of the private sector and that public policy should be shaped to provide incentives which encourage private investment in rural communities by emulating incentives inherent in a free market economy. The existing LEC price cap plan now under review is, in general, consistent with this philosophy and has been successful in encouraging more efficient operations, improving the telecommunications infrastructure throughout the nation, and promoting economic development. In the Notice of Proposed Rulemaking the FCC highlighted the study conducted by Wharton Econometric Forecasting Associates for AT&T

which pointed out that if price caps reduced rates by 2 percent, the effect on the economy after five years would be a \$5.0 billion annual increase in the Gross Domestic Product, a gain of 22,000 jobs, and a \$1.1 billion reduction in the federal debt.²

NADO is encouraged by the results of the FCC's own review of the results of the first four years of the price cap plan which shows that LECs have become more efficient, maintained quality, and expanded their deployment of advanced telecommunications technology. Specifically, the FCC found that access rates have declined, LEC profits are up, and conversion to digital switches, deployment of ISDN and SS7 has accelerated from the prior period under traditional rate of return regulation. Further the mandatory price cap LECs have extended their service in non-urban areas from 10 percent of total lines to 15 percent. Finally, overall penetration rates for telephone service have increased, including those in low income and minority communities.

In conclusion, we feel that the price cap plan should be continued. However, as recognized in the FCC's Notice of Proposed Rulemaking, this review provides the FCC with an opportunity to alter the current plan and we have several recommendations for change which we feel will further promote the benefits of the plan in the future. These are outlined below.

Recommendations for The Future of the FCC Price Cap Plan

The changes recommended here are made in response to various comments filed with

² "The Impact on the U.S. Economy of Regulatory Changes in the Interstate Long Distance Telecommunications Market," Wharton Econometric Forecasting Associates, submitted as Appendix E, comments of AT&T, CC Docket No. 87-313, submitted October 19, 1987.

the FCC after the initial FCC Notice of Proposed Rulemaking. We believe these recommendations will expand current incentives for LEC investments in the national information infrastructure and help bring advanced telecommunications technologies to rural communities through: targeting the current 0.5% Consumer Productivity Dividend to special uses; making further changes in the sharing and low-end adjustment mechanisms; and developing special incentives for smaller telcos who have opted not to participate in the current price cap plan.

Re-Targeting the Consumer Productivity Dividend

Under Baseline Issue 1a the FCC asked whether the price cap plan should be revised to support the development of a ubiquitous national information infrastructure. We note that several respondents including the Ad Hoc Telecommunications Users Committee believe "revising the basic elements of the LEC price cap plan in an effort to support the development of the NII to be an ill conceived endeavor."³ We disagree. While NADO has endorsed competition and the market place as the best mechanism for economic development, we feel that rural America can greatly benefit from incentives given to private industry to help bring about lasting economic development to rural communities. Comments filed by the Computers and Communications Industry Association suggested that the existing price cap plan be revised to:

"offer the LECs more favorable treatment under FCC price cap regulation -- i.e.,

³Comments of the Ad Hoc Telecommunications Users Committee, CC Docket No 94-1, Page 10.

relief from "sharing," depreciation, and the "baseline" productivity factor, individually or in combination -- in return for providing advanced inside wiring facilities to the nation's 2 million classrooms, as well as to its public libraries."⁴

We support this notion of incentives and further suggest that there is one area where, by simply re-targeting existing funds, the FCC can greatly assist institutions located in remote locations to become a full partner in the information age.

The current Consumer Productivity Dividend portion of the total productivity factor, which is currently set at 0.5% annually, is a little known element of this country's communications policy but has represented a tremendous amount of funds over the years in which the plan has been enacted. We believe the Commission should give serious consideration to re-targeting this portion of the productivity factor to specific uses which will further enhance the Clinton administration's goal of deploying a national information superhighway. Specifically, the FCC should explore directing that these funds be used by those LECs under the price cap plan to expand the deployment of an advanced telecommunications infrastructure through providing interconnections with key public and non-profit institutions throughout the country, with a priority on remote areas. The use of these funds in this manner can greatly accelerate the participation of many groups who may otherwise be left out of the coming information age and expand the deployment of a national information infrastructure beyond that which will be deployed in the near future. This is consistent with the goals of the federal government which are embodied in current universal

⁴Comments of the Computer & Communications Industry Association On Proposed Rulemaking, CC Docket 94-1, Page 14.

service programs.

Changing the Sharing and Low End Adjustment Mechanisms

Comments filed by the Computers and Communications Industry Association state that: "The current system is compromised by the "sharing" requirement..."⁵ and they suggest using adjustments to the sharing requirement as an inducement to greater investments by the LECs in expanding the information networks. Other comments filed by the Citizens for a Sound Economy have asked the FCC to "eliminate the sharing and low end adjustment mechanisms, so that the LECs will compete in the capital markets on an even footing with unregulated firms."⁶ NADO endorses the thrust of these comments and offers the following specific recommendations.

The current sharing and low end adjustment mechanism is an anomaly from a pure price cap form of regulation. It was enacted to correct any "errors" in making productivity adjustments in the price cap plan. While we understand the need to assure that consumers are not overcharged for access services in a noncompetitive environment, we believe that the sharing and low end adjustments may also place a further impediment on potential incentives of the affected telecommunications firms in creating more efficient operations and making investments which will further deploy advanced telecommunications into under-served areas. Therefore, the FCC should seriously consider either relaxing or eliminating altogether the sharing and low end adjustment mechanisms or changing the existing mechanisms to incorporate additional incentives for the LECs to invest in upgrading the telecommunications

⁵ib.id. Page i

⁶Comments of Citizens for a Sound Economy Foundation, CC Docket No. 94-1 p.7.

infrastructure, particularly in rural areas which have traditionally lagged behind urban communities in the development of and access to advanced communications services.

Developing Special Incentives for Telcos Who Do Not Participate in the Current Price Cap Plan

In comments filed by the National Telephone Cooperative Association they contend that "the possible benefits of price caps will not arise if applied to most small and rural LECs. The challenging service characteristics of these LECs makes the price-cap conceptual approach unsuitable."⁷ While NADO is not in a position to disagree with this statement, we feel that the FCC should take every opportunity to encourage the deployment of advanced technology into rural communities. Unfortunately, some parts of rural America still lag far behind their urban neighbors. For example, we note in a recent FCC report that conversion of central office technology to stored program control switches which provide equal access to all long distance carriers has lagged behind in the smaller telcos which serve primarily rural areas. Through the second quarter of 1991 this conversion has been accomplished in 97.2 percent of all Bell company lines but only 35.3 percent of small company lines.⁸

We feel that the FCC should consider the impact of implementing either a similar price cap plan or other market driven incentives for smaller telephone companies, with appropriate consumer safeguards, under a separate proceeding.

⁷Comments of the National Telephone Cooperative Association, CC Docket No. 94-1, p.1

⁸"Trends in Telephone Service", Industry Analysis Division, FCC, May 1994, page 20.

Conclusion

We appreciate the opportunity to provide these comments before the FCC. NADO is concerned about the availability of advanced telecommunications services for rural consumers and the benefits of such services for economic development in rural America. We feel that the FCC should take seriously the needs and concerns of providing these services to rural America in revising the existing LEC price cap plan.

Respectfully submitted,



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